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LEADING AND COINCIDENT INDEXES TELL THE STORY

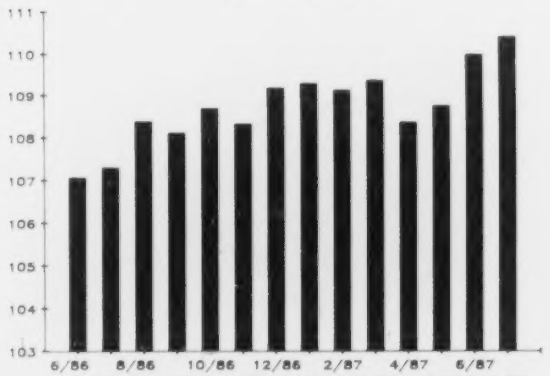
For the most part, **economic conditions in the Commonwealth remained unchanged during July** as evidenced by the Pennsylvania index of coincident indicators which held steady for the month. Additionally, most signals suggest that more of the same type of moderate growth that has been realized over the past several months is in store for the future, with no prospects for any noticeable downturn or rebound in sight. These expectations are backed up by trends in the index of leading indicators which has been on a slightly upward track lately.

Conditions on the employment/unemployment front were little changed during July. The jobless rate, at a seasonally adjusted 5.7 percent, was identical to the June reading as the changes in employment, the labor force, and the number of unemployed were minimal. However, compared to a year ago, some improvement is noticeable as the jobless rate was down 0.9 percentage point. **Over the 12-month period, employment rose by 55,000 and unemployment fell by the same amount as the labor force held steady.**

These year-over-year developments are quite welcome and represent some improvement over recent trends. Through the first seven months of 1987, resident employment in Pennsylvania was up just 0.4 percent from the same period in 1986. However, over the July 1986-July 1987 period, employment was up 1 percent. Much the same is true for the labor force which was down 1.3 percent on a year-to-date basis over the first seven months of the year before holding steady over the 12-month period ending in July. Hopefully, these trends are signs that the recent lackluster performance in terms of employment and labor force gains will soon improve, although several months of positive news will be required to arrive at this conclusion.

The vast majority of **all new jobs are being generated in the service-producing industries.** Healthy job gains continue to be recorded in the trade, finance, and services industries. In fact, year-to-date job gains in each of these industries exceed the 2.2 percent increase for all nonagricultural industries by at least 1.5 percentage points. The job advances realized in the services industries have been especially impressive. So far this year, services jobs are up 4.3 percent from the first seven months of 1986. The accompanying chart shows that, in percentage terms, the big gainers have been the legal, social, and business services industries. However, of these three, only business services accounts for a significant share of all jobs in the services industry (16.4 percent in 1986). Together, legal and social services account for less

PENNSYLVANIA COMPOSITE INDEX
OF LEADING INDICATORS
(Jan 1972=100)



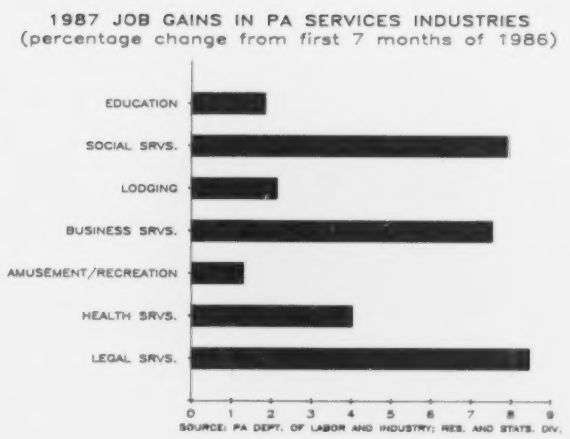
SOURCE: THE PENNSYLVANIA STATE UNIVERSITY, COLLEGE OF BUSINESS ADMINISTRATION

than 10 percent of all services jobs. The largest industry, health services, with over 400,000 jobs, has realized a 4 percent job gain so far this year.

In contrast to these positive trends, **the job situation in manufacturing remains worrisome.** So far this year, job levels are off 1.9 percent from the same period in 1986. In nonmanufacturing, a 3.4 percent gain has occurred. **On the plus side, manufacturing's job performance so far this year does represent some improvement from last year's 3.7 percent job loss.** Additionally, after adjusting for seasonality, job levels rose during July. Normally, manufacturing jobs decline by 13,200 simply for seasonal reasons during the month. This year, the loss came in at just 8,400. Hence, manufacturing job levels rose by 4,800 after adjusting for seasonality, from 1.03 million in June to 1.04 million in July. This is the first such gain since March of this year when USX workers were returning to their jobs following the resolution of their labor dispute.

As an aside, **some contend that it is incorrect to think of Pennsylvania as being a "manufacturing" State in light of the major structural changes taking place in the economy. Some of the evidence, however, suggests otherwise.** While our traditional goods producing industries account for a smaller and smaller share of total employment, in relative terms, the Commonwealth is still much more reliant upon these industries for jobs than in the nation as a whole. One way to measure this reliance is to examine a statistic called a "location quotient" (see table). These quotients are cal-

culated by simply dividing the share of all nonagricultural jobs accounted for by a specfic industry in Pennsylvania by the job share accounted for by that industry at the national level. If the result is equal to one, it tells us that the shares are identical. If it is less than one, than it may be concluded that Pennsylvanians are less reliant upon that industry for jobs than in the nation as a whole while just the opposite is true when the location quotient is greater than one. In comparing location quotients for individual manufacturing industries in Pennsylvania for 1972 and 1986, it is apparent that, for the most part, we are less reliant upon these industries for jobs. However, relative to the U.S., we are still heavily dependent on these industries. For instance, in the case of primary metals, our location quotient has declined from 3 in 1972 to 2.5 in 1986. In other words, the percentage of jobs ac-


1987 JOB GAINS IN PA SERVICES INDUSTRIES
(percentage change from first 7 months of 1986)
EDUCATION
SOCIAL SRVS.
LODGING
BUSINESS SRVS.
AMUSEMENT/RECREATION
HEALTH SRVS.
LEGAL SRVS.
0 1 2 3 4 5 6 7 8 9
SOURCE: PA DEPT. OF LABOR AND INDUSTRY; RES. AND STATS. DIV.

Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1987		1986	1987		1986	1987		1986
	June	*July*	*July*	*June*	*July*	*July*	*June*	*July*	*July*
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	4,954*	4,937	4,810	4,913*	4,928	4,785	107.6*	107.9	104.8
Nonmanufacturing									
No. of wage and salary jobs (thous.)	3,907*	3,898	3,747	3,880*	3,889	3,737	120.4	120.6	115.9
Mining	32	31	34	31*	30	33	63.7*	62.3	68.3
Contract construction	234	245	224	224	227	207	121.5*	123.3	112.3
Transportation	139	132	134	138*	137	139	85.9*	85.0	86.1
Public Utilities	106	106	103	106	105	102	104.9	104.4	101.2
Wholesale trade	272	274	261	271	272	259	122.1	122.8	116.8
Retail trade	871	870	836	867	870	836	120.9	121.3	116.5
Finance, insurance & real estate	291	291	283	288	287	279	132.5	131.9	128.0
Service & miscelianeous	1,278	1,282	1,226	1,269	1,277	1,222	147.1	148.1	141.7
Federal government	141	141	140	140	139	138	109.2	108.6	107.8
State & local government	544	526	506	546	543	523	93.7	93.2	89.8
Manufacturing									
No. of wage and salary jobs (thous.)	1,045*	1,037	1,046	1,034	1,039	1,048	77.0*	77.4	78.1
Durable goods	593	590	598	585	589	596	72.2	72.8	73.6
Nondurable goods	453*	447	449	450*	451	453	84.5*	84.7	85.1
Ave. wkly. hrs. worked by prod. workers	41.1	40.8	40.0	41.0	40.9	40.1	103.7	103.5	101.5
Total wkly. person-hours worked (mils.)	29.2	28.7	28.0	28.7	28.9	28.2	74.9	75.2	73.5
Total wkly. payroll (mil. dols.)	290.8*	285.0	272.9	286.5*	287.3	274.8	127.5*	127.9	122.3
Steel production (thous. tons)	1,008	989	761	n.a.	n.a.	n.a.	46.2	49.9	38.3
Industrial electric power sales (mil. kwh)	3,700	3,737	3,568	3,627	3,748	3,557	98.2	101.5	96.3
Mining									
Anthracite coal (thous. net tons)	385	271	298	376	250	276	77.0	51.3	56.4
Bituminous coal (thous. net tons)	4,753	n.a.	4,653†	4,494	n.a.	4,507†	63.7	n.a.	63.9†
Construction contracts awarded (mil. dols.)									
Total	1203.3	873.9	891.7*	976.5	668.5	771.5*	303.5	207.8	239.8*
Residential building	357.1	464.7	374.4*	277.8	363.1	299.5*	197.4	258.0	212.8*
Nonresidential building	502.4	278.9	269.7*	454.1	201.9	202.0*	418.6	186.1	186.2*
Nonbuilding (utilities and public works)	343.8	130.3	247.4*	244.6	103.5	270.0*	337.5	142.8	372.5*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,359	5,453	5,398	5,309	5,298	5,241	110.5	110.2	109.1
Unemployed									
No. of persons (thous.)	354	335	389	320	322	376	79.8	80.2	93.7
Rate (percentage of labor force)	6.2	5.8	6.7						
Rate, seasonally adjusted				5.7	5.7	6.7			
Civilian labor force, no. of persons (thous.)	5,713	5,787	5,787	5,629	5,620	5,617	108.1	107.9	107.9
Initial claims for unemployment benefits	84,738	93,945	120,699	97,059	88,357	113,016	67.8	61.7	78.9

Consumer Prices, all items	Urban Indexes (1967 = 100)			Percentage Change	
	1987		1986	*Month Ago*	*Year Ago*
	June	*July*	*July*		
U.S. city average	340.1	340.8	328.0	+0.2	+3.9
Philadelphia	339.0	339.1	323.0	+0.0	+5.0
Pittsburgh	338.9	n.a.	328.6†	n.a.	+3.1

[1] Total includes workers on strike. * = figure revised † = figure for June 1986 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

Location quotients for PA manufacturing industries

	1972	1986		1972	1986
Durables			Nondurables		
Lumber & wood prods.	0.57	0.78	Food & kindred	1.05	1.16
Furniture & fixtures	0.78	0.86	Tobacco mfgs.	1.67	0.56
Stone, clay & glass	1.61	1.67	Textile mill prods.	1.07	0.90
Primary metals	3.00	2.50	Apparel & other textiles	1.97	1.75
Fabricated metals	1.30	1.32	Paper & allied	1.09	1.25
Machinery, exc. elect.	1.16	1.07	Printing & publishing	1.10	1.12
Electric & elect. eq.	1.23	0.96	Chemicals & allied prods.	0.98	1.18
Transportation equip.	0.64	0.61	Petroleum & coal prods.	1.70	1.32
Instruments & related	1.10	1.05	Rubber & misc. plastics	1.03	0.99
			Leather & leather prods.	1.42	1.44

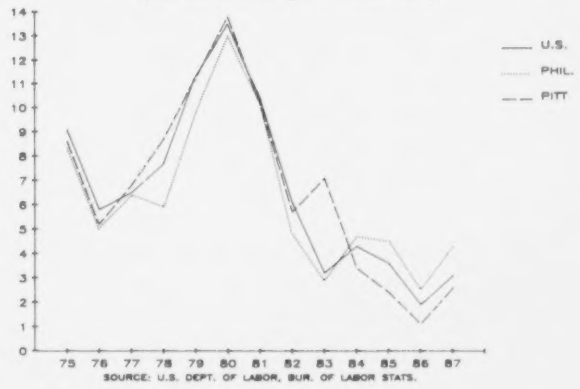
Source: Center for Regional Business Analysis

counted for by primary metals in Pennsylvania is still 2.5 times as high as in the U.S.

A look at the inflation picture also highlights some interesting trends. Unfortunately, no real price data are available for all of Pennsylvania. The only available information is found in the Pittsburgh and Philadelphia consumer price index series. (A CPI series for northeast Pennsylvania was recently discontinued.) While both series behave in the same way with respect to each other and the U.S., an interesting change occurred in the early 1980s (see chart). Over the 1975-1983 period, inflation, as measured by the percentage change in the CPI, was higher in Pittsburgh than in the Philadelphia region. Since then, the opposite has been true. Economic theory tells us that **as activity expands, price pressures result, leading to relatively higher rates of inflation. This theory seems to hold in terms of the Pittsburgh/Philadelphia situation.** Prior to the early 1980s, the unemployment rate, which is a reasonable measure of overall economic activity, in Pittsburgh stood well below that for the Philadelphia metro area. However, the strong recovery in recent years in the southeast has pushed the jobless rate for Philadelphia below the Pittsburgh region's.

— William D. Anderson

U.S. PHILADELPHIA, AND PITTSBURGH INFLATION RATES
(percent change in the CPI)



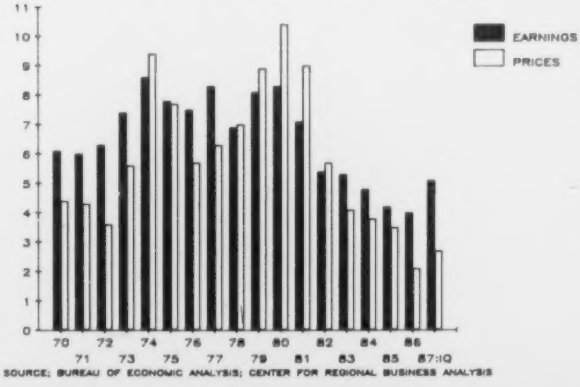
Personal Income Report

Most measures suggest that income growth in Pennsylvania continues to lag national trends based on data through this year's first quarter, the most recent period for which information is available. In totalling a seasonally adjusted $169.2 billion for the January-March period, personal income was up 1.1 percent from last year's fourth quarter and 3.3 percent from a year ago. Nationally, the gains came to 1.7 and 4.6 percent. A similar shortfall occurred with respect to nonfarm personal income. Although the growth in Pennsylvania wages and salaries from the fourth quarter fell short of the gain for the U.S., the annual increase, at 4.9 percent, equalled the nation's rise.

A recent study released by the U.S. Department of Commerce's Bureau of Economic Analysis sheds additional light on Pennsylvania's performance relative to that of the U.S. Over the 1979-1986 period, per capita (per person) personal income grew 6.8 percent in Pennsylvania and 7.1 percent in the U.S. on an average annual basis. Pennsylvania per capita personal income was equal to the national average in 1979, but was only 97 percent of the nation's in 1986. Growth in total personal income over the same period, at an average annual rate of 6.8 percent in Pennsylvania, fell short of the nation's 8.2 percent. Finally, the study showed that the Commonwealth's share of U.S. personal income fell from 5.3 percent in 1979 to 4.8 percent in 1986.

As shown in the accompanying chart, price gains (as measured by the implicit price deflator for personal consumption expenditures) have negated a sizeable portion of income gains. Since 1970, earnings, on a per worker basis, have in-

GROWTH IN PA EARNINGS PER WORKER AND PRICES
(percent change from year ago)



creased about 190 percent. Over the same period, prices rose by about 160 percent. Price advances in the late 1970s and early 1980s took an especially large bite out of earnings gains. On the plus side, income gains over the past four years in Pennsylvania have surpassed inflation, resulting in a rise in "real" purchasing power. However, even here, we find some evidence of uneveness in the Commonwealth's performance. The July *Survey* pointed out the fact that real earnings in the manufacturing sector were barely holding steady.

Pennsylvania personal income
(seas. adj. ann. rates; millions of dollars)

	Personal income	Pct. change Qt. ago	Pct. change Yr. ago
1987:IQ	169,225	1.1	3.3
1986:IVQ	167,466	0.5	3.6
1986:IQ	163,753	1.3	4.4

Source: U.S. Dept.of Commerce,
Bur. of Econ. Analysis

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Retail Sales Report

Retail trade remains a bright spot in the Pennsylvania economy as strong gains in retail sales were again recorded in this year's second quarter. For the April-June period, sales totalled $18.4 billion, a gain of 8.6 percent from the same period in 1986. Impressive gains were recorded in both the durable (up 11.1 percent) and nondurable (up 7.2 percent) goods categories. Additionally, as has been the case for the past several quarters, retail sales growth in Pennsylvania was stronger than that for the U.S. during the period. Second quarter trends represent a considerable improvement from the first three months of the year when retail sales expanded at a 4.7 percent annual rate. The relatively sluggish retail sales growth in the first quarter (the annual gain was the slowest since 1985:IQ) may have resulted from extra caution on the part of consumers because of the new set of federal tax laws. Hence, as consumers became more comfortable with the new "rules of the game," spending picked up in the second quarter.

Even when price gains are discounted, the picture for the Commonwealth appears bright. Recent gains in retail sales have outpaced advances in prices resulting in advances in "real" or inflation-adjusted retail sales. Hence, not only is the dollar volume of retail sales on the rise, but the physical volume is increasing as well.

Pennsylvania retail sales (millions of dollars)

	Retail sales	Pct. change from yr. ago	Durable goods	Pct. change from yr. ago	Nondur goods	Pct. change from yr. ago
1987:IIQ	18,419	8.6	6,902	11.1	11,517	7.2
1987:IQ	15,544	4.7	5,264	9.8	10,280	2.2
1987 YTD	33,963	6.8	12,166	10.5	21,797	4.8

June data is preliminary.
Source: U.S. Dept. of Commerce, Bureau of the Census

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